

Message Text

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ACTION EB-08

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AMEMBASSY LONDON

UNCLAS BOGOTA 2220

E.O. 11652: N/A

TAGS: ETRD, ECON, CO

SUBJECT: NEW COLOMBIAN COFFEE MEASURES

REF: STATE 051537

SUMMARY: THE GOC AND THE COLOMBIAN COFFEE GROWERS FEDERATION HAVE AGREED TO FREEZE THE INTERNAL PRICE OF COFFEE. THE PRICE FREEZE WILL LEAD TO INCREASED INTERNAL COFFEE TAXES WITH EACH RISE IN WORLD COFFEE PRICES, HOWEVER, AN INCREASE IN THESE TAXES WILL NOT HAVE AN IMPACT ON WORLD PRICES. THE FUNDS CAPTURED BY THE FEDERATION AS A RESULT OF THIS MEASURE WILL BE PLACED IN A SPECIAL FUND TO FINANCE DOLLAR COSTS OF PRIORITY PROJECTS IN THE COFFEE GROWING REGIONS. END SUMMARY..

1. THE GOC AND THE COLOMBIAN COFFEE FEDERATION HAVE AGREED TO ADDITIONAL MEASURES TO DEAL WITH HIGH WORLD COFFEE PRICES. THE INTERNAL SUPPORT PRICE WILL BE FROZEN AT 57.60 PESOS (US 1.00-36.38)PER KILO OF GREEN COFFEE AS IT COMES FROM THE GROWER, AND A DOLLAR COFFEE FUND WILL BE CREATED TO FINANCE FOREIGN EXCHANGE COSTS OF PRIORITY PROJECTS IN COFFEE GROWING REGIONS. THE INTERNAL PRICE WAS FROZEN IN SPITE UNCLASSIFIED

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OF STRONG PRESSURES FROM COFFEE GROWERS TO PASS PRICE INCREASES ON TO PRODUCERS. THE MEASURES WILL LEAD TO A GRADUAL INCREASE IN COFFEE TAXES AND WILL NO DOUBT INDUCE GREATER COFFEE CONTRABAND. BUT IT WAS BELIEVED NECESSARY BY THE GOVERNMENT IN ORDER TO LIMIT THE PESO CREATION THAT OCCURS WITH EACH INCREASE IN THE INTERNAL PRICE OF COFFEE.

2. THE DOLLAR COFFEE FUND WILL RECEIVE ALL INCOME THE FEDERATION CAPTURES AS A RESULT OF THE PRICE FREEZE. THE FUNDS WILL BE MADE AVAILABLE FOR PROJECT FINANCING THROUGH A COMMITTEE COMPOSED OF THE MINISTERS OF FINANCE AND DEVELOPMENT AND REPRESENTATIVES FROM THE CENTRAL BANK (BOR) AND THE NATIONAL COFFEE COMMITTEE. THE COMBINATION OF MEASURES WILL LIMIT THE GROWTH OF THE COFFEE GROWERS' DIRECT INCOME, THEREBY CONTROLLING PESO CREATION, BUT WILL STIMULATE THE ECONOMY AND PARTICULARLY THE COFFEE GROWING REGIONS BY MAKING DOLLAR FINANCING AVAILABLE.

3. SINCE THE PRICE FREEZE WILL LEAD TO AN INCREASE IN COFFEE TAXES, WHICH ARE SEEN BY SOME IN THE U.S. AS A DEVICE TO MANIPULATE PRICES, IT MAY BE USEFUL TO DESCRIBE THE RETENTION MECHANISM AS IT PRESENTLY FUNCTIONS. MOST OF THE NUMBERS MENTIONED BELOW CHANGE IN RESPONSE TO SIGNIFICANT PRICE MOVEMENTS ON THE NEW YORK COFFEE MARKET.

4. AT A SUPPORT PRICE OF 57.60 PESOS PER KILO, THE COFFEE FEDERATION IS UNABLE TO PURCHASE COFFEE ON THE INTERNAL MARKET. PRESENTLY, COFFEE EXPORTERS PURCHASE COFFEE FOR 60 PESOS PER KILO. SHOULD THE FEDERATION TRY TO PURCHASE COFFEE, IT WOULD HAVE TO OUTBID COFFEE EXPORTERS, THUS DRIVING INTERNAL PRICES UP TO WORLD LEVELS, MINUS TAXES AND COSTS, AND ELIMINATING PRIVATE EXPORTERS FROM THE MARKET.

COFFEE RETENTION
(COSTS AND RECEIPTS IN PESOS)

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COST RECEIPT

I. COFFEE EXPORTER PURCHASES

130 KILOS OF GREEN UNCLASSIFIED

COFFEE	7,800
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A. PROCESSED YIELDS

1. 100 K. EXCELSO (TOP QUALITY)
2. 5.5 K. PASSILLA (LOW QUALITY)
3. 1 K. RIPIO (LOWEST QUALITY)
4. 23 K. LOSS

B. RETENTION TAX PAID BY EXPORTER TO COFFEE FEDERATION

1. 30 KILOS EXCELSO
2. ALL RIPIO AND PASSILLA
3. 40PCT X 70 X 163 PESOS 4,564
4. 10PCT X 70 X 52 PESOS 364
5. RECEIVES TAC (SHORT TERM
PESO BOND) 364

C. EXPORT 70 KILOS

1. REINTEGRO (THE AMOUNT COFFEE

EXPORTER MUST REPATRIATE) 15,388.74

2. EXPORT TAX 17PCT 2,615.72

D. TOTAL PESO COSTS/RECEIPTS 15,343.7 15,752.74

PESO PROFITS

409

5. THE RETENTION MECHANISM AND EXPORT TAX ADD UP TO ABOUT A 59PCT TAX RATE ON COFFEE EXPORTS. HOWEVER, IT IS NOT FULLY ACCURATE TO CONSIDER THE OPERATION A TAX ON COFFEE BECAUSE IF THERE WERE NO RETENTION AND NO TAXES, EXPORTERS WOULD SIMPLY BID UP THE INTERNAL PRICE TO WORLD LEVELS MINUS EXPORT COSTS. HENCE, THE TAX IS AN INTERNAL DEVICE TO UNCLASSIFIED

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ALLOCATE EARNINGS. AS A TAX IT FALLS ON GROWERS, NOT ON EXPORTERS. SINCE THE RETENTION MECHANISM IS THE MEANS BY WHICH INTERNAL PRICES ARE HELD WELL BELOW WORLD LEVELS, IT MAY HAVE A MINOR EFFECT ON PROCES, BECAUSE COFFEE CONSUMPTION IN COLOMBIA WOULD PROBABLY BE LOWER IF COLOMBIANS HAD TO PAY WORLD PRICES FOR INTERNAL USE. FOR INSTANCE, IF CONSUMPTION WERE AS MUCH AS 20PCT HIGHER BECAUSE OF LOW INTERNAL PRICES, THEN SOME 200 THOUSAND BAGS ARE BEING CONSUMED WHICH, IF EXPORTED, WOULD HAVE AN IMPACT ON PRICES (USING ELASTICITY OF -.2) OF ABOUT -.5PCT, WHICH AT US \$3.00 A POUND, WOULD BE A ONE AND A HALF CENT REDUCTION IN PRICE.

6. THE COFFEE RETENTION WOULD HAVE AN ADDITIONAL AND STRONG UPWARD EFFECT ON PRICES IF THE FEDERATION HELD ON TO THE COFFEE IT COLLECTS IN TAXES. HOWEVER, THE FEDERATION IS MARKETING ALL OF THE COFFEE IT RECEIVES IN RETENTION AND, AS WELL, IT IS REDUCING ITS STOCKS. GIVEN LOW WORLD STOCKS, A NERVOUS MARKET BECAUSE OF THE STEEP UPWARD MOVEMENTS, AND WTHE APPEARANCE OF RUST IN CENTRAL AMERICA, AN INCREASE IN COFFEE EXPORTS AT THE COST OF STOCKS MAY NOT BE HAVING THE EXPECTED EFFECT ON PRICES. SINCE 1971, WHEN WORLD STOCKS FELL BELOW A ONE YEARS' EXPORT SUPPLY, THERE SEEMS TO BE AN INVERSE RELATIONSHIP BETWEEN CHANGES IN STOCKS AND CHANGES IN PRICE. DREXLER

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